

# South Asia

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## Populism behind rupee's free fall

By Kunal Kumar Kundu

NEW DELHI - "No need to panic" said the Indian government when the rupee was close to 60 to the US dollar. "No need to panic" says the government now, after the rupee has crossed 68 and has threatened to touch 69.

The similarity of response is in line with similarity of factors behind the crisis - the only difference being that the soft underbelly of India's economy remains fully exposed now.

Ideally the government should have apologized for past mistakes and earnestly has set about setting things in order. Instead, it dumped another toxic policy on India - the much touted food security bill. The bill proposes to provide cheap food grains to roughly 66% of India's population. It comes exactly 66 years after independence and will, ironically, burden the nation with further fiscal pressure that will choke any possibility of recovery at least during the current financial year.

On the other hand, while domestic investment has been choked due to uncertainty around land acquisitions, the government had a chance to use its proposed land acquisition bill as a catalyst that could have revived investment sentiment in the country. However, the newly introduced land acquisition bill has come as a body blow to the industry.

While it does ensure increase in transparency in land deals, it introduces additional layers of approval by various authorities, which will slow down the acquisition process, while the compensation mooted (four times the market value of land in rural areas and two times the market value of land in urban areas) may make projects unviable.

From the perspective of the economy, this could not come at a worse possible time. With the fiscal and current account deficits already high and rising, high inflation and slowing growth, there's neither any monetary space nor any fiscal space to stimulate growth. The only space that is available is in the form of sensible policy making. But with a general election fast approaching - the term of the present parliament expires at the end of next May - that option is as good as closed.

However, if for a moment, one ignores the economic consequences of such disastrous policies and rather focuses on the political angle to it, the introduction of the food security bill clearly turns out to be a smart ploy. While one would love to believe that finally only economic development counts as far as elections are concerned, in reality that's far from being the case, though there might be incidences that support the earlier contention.

Available data suggests India experienced jobless growth during the second half of the past decade. More crucially, employment elasticity of manufacturing was negative. While policy makers failed to stimulate manufacturing, the service sector grew at a faster pace to perk up India's growth rate. That service sector led growth mostly benefits the urban population is but a foregone conclusion.

Unfortunately, how ever fast the service sector grows, it cannot bridge the country's existing skill gap and hence the issue of employability. It is not a surprise that faster growth in India has led to rising inequality as only a small portion of the population has gained from India's growth story, while a significantly large chunk of the population, especially those in the rural areas failed to see much benefit.

This again brings forth the fact that while economic growth is a necessary condition for

development, it is definitely not a sufficient condition. The jobless growth, as mentioned earlier, further reinforces the belief that policies to redistribute the fruits of economic growth have failed. This is what the ruling UPA government, led by Congress, went about addressing in earnest.

I am not talking about devising of any policies by the UPA government that might have lead to a more equitable distribution of growth. The Congress party took it upon itself to showcase the fact that it is truly concerned about social justice and welfare of people. So it embarked upon a series of measures that will ensure the virtual transfer income to the rural population without concomitant increase in effort and productivity - and here we can refer to projects such as the Mahatma Gandhi National Rural Employment Guarantee Act, wherein the government provides 100 days of guaranteed work at certain pre-determined level of wages, an unprecedented hike in the minimum support price mechanism for foodgrain procurement from farmers, and multiple other exchequer draining schemes.

The India Shinning campaign of the BJP-led National Democratic Alliance government prior to the 2004 election was perceived as urban-centric development program and was rejected by rural India - thereby bringing the UPA into power. This was the beginning of a deluge of populist policies that forced the economy down the fiscal crevice while the UPA continued to retain power.

India's fiscal strength has been so badly compromised since 2004 that, after the government sought to fiscally stimulate growth after the implosion of the 2008 global financial crisis, the economy started to hobble again as India's policy-induced structural impediments stood fully exposed.

Now, the mere threat of the US Federal Reserve tapering back its quantitative easing money-creation policy has led to a panic reaction among investors, especially foreigners.

Yet, it will be of little surprise if the present coalition government comes back to power (for the third time in a row) in 2014 despite being embroiled in a series of corruption scandals, being aided in no small measures by the perceived benefit of the recently announced food security bill.

Ironically, the architect of India's much-lauded economic reforms in 1991, then finance minister Manmohan Singh, now sits tight as prime minister even as the country hurtles towards a crisis. India's politicians have proved time and again that they have an uncanny ability to kill a perfectly good growth story by their self-centered policy making and shameless urge to cling on to power.

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